

~~Secret~~

3.5(c)



DIRECTORATE OF
INTELLIGENCE

Intelligence Report

The Situation in South Vietnam (Weekly)

~~Secret~~

150

20 November 1967
No. 0377/67

~~Secret~~

~~Background Use Only~~

WARNING

This document contains information affecting the national defense of the United States, within the meaning of Title 18, section 793 and 794, of the US Code, as amended. Its transmission or revelation of its contents to or receipt by an unauthorized person is prohibited by law.

GROUP 1
EXCLUDED FROM AUTOMATIC
DOWNGRADING AND
DECLASSIFICATION

~~Secret~~

~~SECRET~~

3.5(c)

CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence

THE SITUATION IN SOUTH VIETNAM
(13 November - 19 November 1967)

C O N T E N T S

	<u>Section</u>
POLITICAL SITUATION	I
Thieu outlines organization of President's office; Lower house politicking; Lower house activities; Senate rules drafting continues; New political party developing; Revolutionary Dai Viet split continues; Buddhist reconciliation efforts.	
REVOLUTIONARY DEVELOPMENT	II
Status of prisoners in South Vietnam; Security in Quang Ngai and Quang Nam provinces; Revolutionary Development cadre; Vietnamese armed forces in Revolutionary Development.	
ECONOMIC SITUATION	III
Prices; Currency and gold; New economic administration; Import situation; Infestation of stored US rice; Inflation - the cost of more piasters.	
ANNEX:	Weekly Retail Prices in Saigon (table) Saigon Free Market Gold and Currency Prices (graph)

~~SECRET~~

3.5(c)

I. POLITICAL SITUATION

President Thieu reportedly intends to organize the office of the presidency under a secretariat general with three subordinate offices which will handle routine paper work and serve as a channel between the presidency and other government components. The new Democratic Bloc in the lower house has apparently got off the ground after some initial difficulties and has reportedly already attracted 50 deputies. The Movement for the Renaissance of the South reportedly intends to work as an opposition group in the house, but will moderate its opposition with a view toward possibly joining a pro-government bloc in the future. The Senate has established 12 standing committees and has approved draft rules dealing with their duties, but in general work on the rules is proceeding slowly and may not be completed until well into December. The question of a status of forces agreement arose in the Senate and will probably be much talked about in future sessions.

Senator Tran Van Don, provisional president of the assembly's Farmer-Worker-Soldier group, has announced that another group of which he is also the provisional head, the Freedom Fighters' Association, intends to establish itself as a political party. Factional differences continue to split the Revolutionary Dai Viet Party, and Senator Nguyen Van Ngai is proceeding with attempts to consolidate his position in order that his faction can break away and form a new party. A conglomerate of Buddhists and politicians met on 12 November in an attempt to resolve the charter dispute, but the meeting proved largely inconclusive.

I-1

~~SECRET~~

3.5(c)

Thieu Outlines Organization of President's Office

1. President Thieu outlined his plans for organizing the office of the presidency in a recent meeting with his political advisers. [redacted]

3.3(h)(2)

[redacted] Thieu intends to organize the office under a secretariat general with three subordinate functional offices to handle routine paper work and to serve as a channel between the presidency and other government components. The office will also include two advisory councils and a staff of technicians and personal assistants.

2. Thieu apparently believes that such an organization will strengthen the power of the presidency and will permit close liaison between himself and the US. He told his advisers that the proposed organization should also help facilitate US technical and advisory support to government programs. He expressed confidence that closer collaboration with the US was possible in light of the fact that the US has recently expressed strong support for his leadership.

Lower House Politicking

3. Following a few unsuccessful attempts in late October to get off the ground, the new Democratic Bloc in the lower house now appears to be well on its way--apparently with a little push from the government--to becoming a significant force in the house.

4. On 2 November, [redacted] 32 lower house deputies met with Vice President Ky and agreed in principle to form a progovernment bloc in the house. They also pledged to support the candidacy of deputy Nguyen Ba Luong for permanent lower house chairman and to accept Luong as their bloc's titular leader. [redacted]

3.3(h)(2)

3.3(h)(2)

5. Hoa [redacted] later met with National Police Director Loan, who claimed

3.3(h)(2)

~~SECRET~~

3.5(c)

~~SECRET~~

3.5(c)

he had received pledges from an additional 20 deputies, thereby raising the bloc's membership to approximately 50. Several days later, Luong announced the bloc's formation in a Saigon Post article and described it as a 50-man body with plans for further expansion.

6. Some of these expansion plans apparently involve offers of money to fence-sitting deputies,

3.3(h)(2)

and attempts to lure deputies away from already established blocs. Several deputies, many from the Farmer-Worker-Soldier group, have reportedly been offered varying sums of money, in addition to promises of full room and board while they are in Saigon, if they will join the bloc. The attempt has been unsuccessful in a number of cases, including that of Duong Van Be, interim secretary general who allegedly was offered about \$850, by Nguyen Ba Luong, but at least two montagnard members of the Farmer-Worker-Soldier group have reportedly defected to the Democratic bloc.

7. Another group in the lower house has also been busy formulating its plans. Eight officers of the Movement for the Renaissance of the South, including its leader in the lower house, Ly Quy Chung, decided at a meeting on 7 November that the movement would work as an opposition group in the house

3.3(h)(2)

Its opposition, however, will be moderate, and it may eventually join with a progovernment bloc. The officers further agreed that, while the movement will never join a pro-Ky group, it might consider joining a pro-Thieu group at some time in the future if Thieu's actions prove acceptable.

8. In the meantime, the movement wants to form its own house bloc and avoid a merger with any other groups in order not to be bound by decisions with which its own members might not agree. To this end, Chung agreed to work for the adoption by the house of a 20-deputy minimum for the formation of an officially recognized bloc, rather than the 30-deputy limit already suggested. The movement feels it can attract enough additional members in the house to supplement the 11 to 13 deputies who are already members or are supported by the movement.

I-3

~~SECRET~~

3.5(c)

~~SECRET~~

3.5(c)

Lower House Activities

9. Lower house plenary sessions during the period 13-16 November have been largely concerned with validating the election of its membership and a debate over the resolution put forward by 30 members regarding the 17 students drafted as a result of their anti-election demonstration activity. So far, the sessions of the lower house have been more disorganized and livelier than those of the upper house, due largely to the ineffectiveness of the temporary chairman, Nguyen Ba Luong, and the unfamiliarity with parliamentary procedures of its members. It also appears that opposition elements will have an influential voice in this assembly judging by their performance on the student resolution issue.

10. As of 16 November, the lower house had validated the election of some 100 of its 137 members. Validation is a continuing process carried on by the validation committee, with each case discussed individually on its own merits and presented to the assembly for its vote. To date, the committee has recommended validation in each case and the assembly voted to accept its recommendations. Remaining cases will probably be disposed of in the next few days.

11. A rather lengthy debate was centered on resolutions to intervene with the government in some way on behalf of the 17 students who were arrested and drafted for anti-election demonstration activity. The issue was finally settled by deciding to appoint a ten-man committee composed of two representatives from each of the corps areas and Saigon and Gia Dinh to "intervene for return to civilian life" of the student demonstrators. The committee reportedly will look into the whole matter of "illegal detainees." Three of the committee members, Nguyen Trong Nho, Nguyen Dai Bang, and Truc Vien, were strong supporters of the original resolutions and are expected to play a major role in the new committee. These three men may be generally characterized as opponents of the present government.

Senate Rules Drafting Continues

12. During its continuing consideration of draft rules submitted by the rules committee, the Senate on

I-4

~~SECRET~~

3.5(c)

~~SECRET~~

3.5(c)

9 November approved the establishment of 12 standing committees and decided against having a secretary general on its board of presiding officers. At subsequent sessions on 11 and 14 November, nine articles dealing with the duties of these standing committees were approved.

13. The 12 committees are agriculture; education, culture, and youth affairs; communications and public works; economics; labor and social welfare; budget, finance, and taxes; information and foreign affairs; interior; defense; judiciary; health; and internal affairs and rules. Each will include between five and ten members, with the exception of the budget and finance committee, which may have as many as 15. Each committee may form subcommittees.

14. In discussing its presiding officers, the Senate voted to forgo election of a secretary general and establish instead the internal affairs and rules committee. The position of secretary general was one of considerable power in the Provisional National Assembly, and the senators were apparently reluctant to vest so much power in one man again. The committee will probably be responsible for such tasks as controlling the agenda and ruling on legislative procedures.

15. A major point of contention arose during the debate on 11 and 14 November on articles dealing with the standing committees' duties. Several senators attempted to have responsibility for defining the status of allied forces assigned to either the information and foreign affairs committee or the national defense committee. In both cases, the move was disapproved, although a provision was included as an "annotation" to the defense committee article by which the committee "examines and reports to the upper house on regulations for allied military forces on the territory of the Republic of Vietnam, when such forces are here." Senator Tran Van Lam later told an embassy officer that he expects the status of forces question to rank high on the Senate's list of priorities.

16. Work on the rules has begun to slow after the Senate's energetic start earlier in the month. Some 59 articles of the more than 200 have been approved thus far. The rules drafting process will

I-5

~~SECRET~~

3.5(c)

probably continue well into December, contrary to some earlier optimistic predictions that it could be completed by mid- or late November.

17. There was a lively debate on 15 November over the rules governing the establishment of blocs within the Senate. The rules drafting committee had proposed that the minimum number to constitute a bloc should be 21--which would have insured the creation of no more than two blocs in the 60-member upper house. This course, according to the committee, would facilitate the movement toward a two-party system and would be in the spirit of Article 100 of the constitution which states, "The Nation encourages progress toward a two-party system." The committee also argued that in its opinion any rules which do not foster such progress would in a sense be unconstitutional. Only ten senators, however, voted for the committee's proposal.

18. The Senate then went on to approve its own measure from the floor to set the minimum bloc membership at 15 which will allow as many as four blocs to be organized. The argument from the floor against the committee recommendation was that while the constitution commits the nation to "encourage" progress toward a two-party system, it says nothing about forcing such movement.

New Political Party Developing

19. Senator Tran Van Don announced in early November that a group composed largely of retired generals and formed originally in July as a veterans' association intends to become a political party. During a subsequent conversation with an embassy officer, Don, who is the provisional chairman of the group, known as the Freedom Fighters' Association, clarified the association's objectives and plans.

20. He does not expect that the group can be organized as a political party--a process which he says requires the establishment of national, provincial, and village structures throughout a large part of the country--for at least a year and possibly two. Don has already begun establishing contacts in some areas with persons who will probably agree to organize local chapters, but little beyond this has

SECRET

~~SECRET~~

3.5(c)

yet been accomplished. He foresees a mass organization which can successfully compete with the Communists' mass appeal, but no platform or program outlining this concept has yet been drawn up for the association. Among those on the association's executive committee are retired generals Ton That Dinh, Tran Tu Oai, Le Van Nghiem, Mai Huu Xuan, Nguyen Van Chuan, and Thai Quang Hoang. Former General Pham Van Dong is also an association member, serving as chairman of the group's Saigon chapter.

21. As for the association's relationship with the Farmer-Worker-Soldier group, of which Don is also provisional president, he told the embassy officer that the two groups would develop independently, while maintaining considerable liaison because of their partially overlapping leadership. Although it is not yet clear what Don's personal relationship to the two organizations will be in the future, his reference to the overlapping leadership--he and Ton That Dinh are the only two individuals who overlap--indicates that he intends, at least for the time being, to keep his hand in both groups. He may hope that by doing so, he can attempt a merger of the two groups if one appears to be foundering or can save his own political skin by falling back on one group if the other fails.

Revolutionary Dai Viet Split Continues

22. Another already established political party is having factional difficulties and is apparently heading for a permanent split. A rift in the Revolutionary Dai Viet Party developed in early October when party leader Ha Thuc Ky and a few of his followers on the central committee refused to go along with a decision of the majority, led by Senator Nguyen Van Ngai, that the party should accept the assembly's validation of the presidential elections

23. Since then [redacted] the two factions have collaborated on day-to-day party matters, but both Ky and Ngai have proceeded with efforts to consolidate their respective positions. Ngai does, however, claim control of the party's publications and 700 of its 900 cadre, including some 89 intellectual leaders. Ngai reportedly feels that he has the advantage as the holder

3.3(h)(2)

3.3(h)(2)

I-7

~~SECRET~~

3.5(c)

~~SECRET~~

3.5(c)

of a public office, but that he needs a little more time to improve his image as a national political leader and to expand his control of the party before he can successfully break with Ky.

Buddhist Reconciliation Efforts

24. A mixed group of Buddhists and politicians, calling themselves the "Committee Campaigning to Unite Buddhism," met on 12 November to seek a resolution of the current charter dispute. Although representatives of both the militant and the moderate factions were present, the meeting apparently did not have the blessing of either Tri Quang or Tam Chau. This may, in fact, signal the beginning of the "third force" reported to be emerging as a middle-of-the-road grouping intended to work for the unity of the church without reference to the extreme views of either leader.

25. Some 30 people from various Buddhist sects and organizations were present at the meeting, along with acting lower house chairman Nguyen Ba Luong and Senator Trinh Quang Qui of the Farmer-Worker-Soldier slate. Thich Huyen Minh was the chief representative of the moderate faction and Thich Phap Sieu appeared to be the militants' sole delegate. Both Minh and Sieu spoke at some length on the charter problem, each professing his desire--and the desire of his faction--for unity. Minh, moreover, expressed the hope that the meeting's participants would work to convene a Buddhist congress which would examine both charters and decided on the retention of one. The others present, however, seemed unsure of exactly what they should do--whether to establish a formal organization to supersede both Tri Quang's and Tam Chau's factions, convene a Buddhist congress, or merely initiate informal contact between the two factions.

26. The meeting ended on that inconclusive note, but a group of six "representatives of Buddhist organizations"--not including, significantly, the one militant representative, Phap Sieu--remained behind to draft a declaration. The declaration was also rather inconclusive, pledging only to "promote

I-8

~~SECRET~~

3.5(c)

~~SECRET~~

3.5(c)

the creation of an association to unite Buddhism." The association, which would include "many" Buddhist sects, would have a permanent office and a board of directors rather than a single leader. The declaration further calls for a congress, apparently to consider specifics of the proposed association.

~~SECRET~~

3.5(c)

~~SECRET~~

3.5(c)

II. REVOLUTIONARY DEVELOPMENT

A recent decree of the Vietnamese government provides for clemency or a reduction in the sentences of 6,327 prisoners. Another government decree directs the destruction of a number of criminal records; however, the number of persons affected is unknown. Security in Quang Ngai and Quang Nam provinces sharply decreased in September, and in Quang Nam, security continued to decrease in October. The number of Vietnamese RD teams continues to grow, but the strength per team is declining. The number of Vietnamese army battalions in direct support to Revolutionary Development remains around 53. US Army battalions in RD have increased to six. As of 3 November 25,329 persons had rallied to the government under the Chieu Hoi or "Open Arms" program. On the same date last year only 15,220 persons had rallied; however, recently the weekly returnee rate has been below that of last year. Thus far, only III Corps has been able to double the number of last year's ralliers.

Status of Prisoners in South Vietnam

1. In conjunction with the recent National Day celebration and the presidential inauguration, the government of Vietnam (GVN) reportedly released or reduced the sentences of approximately 6,327 prisoners. In addition, the GVN issued a decree on 30 October which grants complete freedom and erasure from all records of charges or convictions of people detained under specific categories of criminal acts. US officials in Saigon are uncertain as to how many persons will be affected by the latter decree. GVN officials have made only vague statements, publicly or privately, concerning both the decree and prisoner release.

II-1

~~SECRET~~

3.5(c)

~~SECRET~~

3.5(c)

2. An official in the Vietnamese Ministry of Justice recently informed US officials that the prisoner release and sentence reduction was a direct act of clemency from President Nguyen Van Thieu to the individuals concerned. The Director of the National Police General Nguyen Ngoc Loan told a US official that he personally had nothing to do with the matter, but that he believed that the prime minister's office had told the province chiefs to release a certain number of prisoners on the occasion of National Day on 1 November.

3. The semi-official Vietnam Press on 31 October reported that, of the 6,327 prisoners who received clemency, 5,482 were released--1,167 political detainees and 4,320 suspects--and 509 civilian and 336 military prisoners had their sentences reduced.

4. Since the specific selection of persons to be released was apparently left in the hands of the local authorities, US officials feel that it was possible that a number of Viet Cong were included among the suspects and political detainees released. This belief is somewhat substantiated by a Vietnam Press report of 3 November which stated that political detainees were released in Thua Thien, Pleiku, Phu Yen, Dinh Tuong, and Kien Hoa provinces after they had taken an oath of loyalty to the government and promised to fight against the Viet Cong.

5. The civilian prison population now totals 32,385. Of this figure almost 15,000 have been sentenced and over 17,000 are still awaiting trial. A breakdown by the category of offender shows 20,535 political prisoners (the largest number of whom are probably Viet Cong or Viet Cong suspects), 5,793 criminal prisoners, 1,002 armed rebels (ethnic minority group dissidents such as the Khmer Kamputier Krom and FULRO), and 5,055 military prisoners. In addition, there are approximately 1,000 prisoners at any given time in interrogation centers throughout the country.

II-2

~~SECRET~~

3.5(c)

~~SECRET~~

3.5(c)

6. US military officials have reported that as of the end of October approximately 8,260 military prisoners of war (POW) were in the custody of the government of Vietnam. This total included about 1,485 ethnic North Vietnamese, 224 regroupes, 5,938 southerners and about 612 persons whose origins are still unidentified. All but about 385 of these prisoners have been captured since January 1966 and about half of the total number--some 4,981--have been captured by US forces. There are an estimated 340 additional POWs in allied medical facilities who are not included in the prisoner total.

7. To house these POWs, US and GVN forces have constructed five major detention centers, one in each corps area and one on Phu Quoc Island. Under normal conditions these centers have a POW capacity of only 11,000; however, with minor internal alterations, they can quarter about 14,000 POWs.

Security in Quang Ngai and Quang Nam Provinces

8. CORDS' report on pacification in South Vietnam during September substantiates earlier information which suggested a declining security situation in some central coastal provinces. According to the CORDS report, there was a decided decline in security during September in Quang Ngai and Quang Nam provinces.

9. Quang Ngai's pacification effort suffered a severe setback when the enemy occupied eastern Tu Nghia District for 10 days following the 29-30 August attack on the provincial capital. Eastern Tu Nghia is the most important of the five RD campaign areas in the province. The intensity of the enemy offensive drove the Regional and Popular Force (RF/PF) soldiers and the RD cadres from a number of hamlets. The Vietnamese Army (ARVN) reaction was delayed and cautious, even after their forces were augmented by two battalions from Quang Tin Province. ARVN forces, however, appear to have been successful in at least temporarily clearing the area, and the RF/PF and the cadres

II-3

~~SECRET~~

3.5(c)

~~SECRET~~

3.5(c)

have reportedly returned to the hamlets. The ARVN supporting units have been withdrawn from Quang Ngai, and Vietnamese forces in the province have returned to the security status prior to September. US officials are skeptical of the local forces' ability to preserve security and feel that enemy forces could, and indeed may, repeat their seizure of eastern Tu Nghia.

10. During September, Quang Nam Province experienced a reversal similar to that of Quang Ngai. Enemy pressure caused a least a temporary loss of security in coastal Hieu Nhon District which includes the provincial capital of Hoi An. At one point five RD teams had to be temporarily withdrawn from their hamlets because of a lack of security. During October the enemy continued its offensive in Quang Nam and directed much of its effort against the districts of Dai Loc and Hieu Duc. Enemy forces seem to be attempting to force government forces into enclaves in Hoi An, Da Nang, and the district towns.

Revolutionary Development Cadre

11. On 1 October CORDS reported that 505 Vietnamese RD teams, with a field strength of 23,442, were deployed throughout South Vietnam. While the number of teams has increased during 1967, the total field strength of the teams has remained relatively constant and the strength per team has decreased. A 59-man RD team is the optimum size required to perform the tasks assigned. A properly motivated and trained team, however, can do the job expected of it with considerable fewer men under ideal security situations. For example, in the relatively secure delta province of An Giang, there are 38 teams of 20 men whose function is primarily economic development. They work one group to a village.

12. In addition to the Vietnamese RD teams, there were also 106 Truong Son (montagnard) RD teams and 5,340 Static Census Grievance Cadres in the field on 1 October. The total strength

II-4

~~SECRET~~

3.5(c)

~~SECRET~~

3.5(c)

on that date of the three cadre groups, the command and control cadres, and trainees was about 45,295.

13. Despite a large number of graduates from the Vung Tau National Training Center for RD cadres, an attrition rate of about 34 percent has prevented a quantitative increase in Vietnamese RD cadres. Vung Tau graduated 1,585 students from the basic course on 3 August, 2,373 students on 2 October, and 2,322 students on 6 November. With the approximately 2,675 recruits who started basic training on 7 November, Vung Tau now has about 6,000 trainees. In an effort to improve the qualitative efforts of the RD teams, Vung Tau now offers a number of courses to train specialists or technical cadre. In 1968 a Research and Intelligence training course will be initiated. This course is scheduled to train 400 students in four classes of 100 students each. Other specialist cadre courses at Vung Tau include leadership and medical training.

14. The Truong Son program is expected to level off at a strength of about 8,000. The training center located in Pleiku had about 1,211 students in the basic cadre course during October and, including trainees, had 7,477 persons in the program.

15. Civil military teams are also under the direction of the RD Cadre Directorate. There are 35 teams; 32 are in II Corps. Civil-military teams are composed of technical service cadres and Regional or Popular Force platoons.

16. For September CORDS reported that 99 enemy-initiated anti-RD incidents cost the lives of 54 cadres and wounded about 142. Vietnamese RD cadre losses for September were 597; this figure includes killed, captured (11), discharged (224), and deserted (308).

Vietnamese Armed Forces in Revolutionary Development

17. As of 1 October, 164 Vietnamese Army (ARVN) battalions had completed their RD training under the RD mobile training team program. To

II-5

~~SECRET~~

3.5(c)

~~SECRET~~

3.5(c)

insure that there is no slippage in the program, an RD refresher training course is scheduled to begin in November.

18. Although the number of ARVN battalions usually committed to the direct support of RD averages 53, the units involved and the number per corps has been fluctuating. A 17 November MACV report shows only 52--14 battalions in I Corps, 10 battalions in II Corps, 13 battalions in III Corps, and 15 battalions in IV Corps. On 17 November US forces had deployed two US battalions in I Corps, one in II Corps, and three in III Corps in support of RD.

19. Despite the difficulties imposed by operational requirements, RD training for Regional Force (RF) companies is continuing. Through September, 513 companies had been trained; approximately 219 of these companies are in direct support of RD. Throughout the country there are 745 Popular Force (PF) platoons in direct support of RD.

20. In northern I Corps, 80 of the approximately 115 RF companies in the Corps have received their RD training. In addition, 672 Popular Force (PF) platoons have completed their combined Motivation/ Indoctrination and RD training. To further enhance their over-all military posture, Vietnamese forces in I Corps are reportedly in the process of activating an additional 15 RF companies and 41 PF platoons.

21. Since August, elements of the ARVN 22nd Division in the II Corps province of Binh Dinh have been conducting an operation in the Bong Son Plain and Duong Lieu Valley to prepare the area for pacification. The general concept of this operation has been to increase the number of small unit and ambush operations in the vicinity of the Cay Giap mountains and, with cordon-and-search techniques, to ferret out the enemy infrastructure in the village and hamlets in the area.

II-6

~~SECRET~~

3.5(c)

III. ECONOMIC SITUATION

Retail prices in Saigon declined one percent during the week ending 6 November because of lower prices for domestic rice and other foods. Free market currency and gold prices increased. Most economic posts in the new cabinet are occupied by relative unknowns, and Minister of Economy Ton's record during his previous terms in the position was undistinguished. Import orders during the first nine months of 1967 were smaller than anticipated as the result of existing large inventories of goods in the hands of importers. USAID personnel recently found substantial insect infestation in PL-480 rice stored by the South Vietnamese Government. The relationship between the price level and the increasing supply of piasters has tightened since 1965, and future additions to that supply will place greater pressure on prices.

Prices

1. Retail prices in Saigon declined 1 percent during the week ending 6 November after having risen sharply the previous week. The food price index dropped 3 percent as prices of most varieties of domestic rice as well as of pork, fish, and chicken declined. The price of the type of rice used in calculating the USAID index declined to 22.5 piasters per kilogram, the lowest since mid-February, as deliveries of new crop rice continued to arrive in Saigon. Prices of nonfood items increased slightly as the price of laundry soap rose again as a result of the high cost of coconut oil. Firewood and charcoal prices also rose, the latter for the first time since early September. (A table of weekly retail prices in Saigon is included in the Annex.)

III-1

~~SECRET~~

3.5(c)

~~SECRET~~

3.5(c)

2. The USAID index for wholesale prices of US-financed imports also declined slightly because new arrivals of wheat flour and galvanized iron sheet resulted in lower prices for these items. The price of wire rods, however, rose sharply because of low stocks and lack of new deliveries.

Currency and Gold

3. Free market currency and gold prices increased on 6 November. The prices of green dollars and MPC (scrip) rose two piasters to 155 and 115 piasters per dollar, respectively. The price of gold leaf increased four piasters to 201 piasters per dollar, the highest rate since mid-August. (A graph on monthly and weekly currency and gold prices is included in the Annex.)

New Economic Administration

4. The key portfolio of minister of economy in the new cabinet has once again gone to Truong Thai Ton, while most of the related ministries will be headed by less well known figures. Ton, an agricultural engineer, previously served as minister of economy from June 1965 to February 1966 and from February 1967 to mid-March 1967, but his record was undistinguished. He has had wide experience in government and at the time of his appointment was serving as an economic adviser in the prime minister's office. US officials consider him capable and hard working, but lacking in administrative ability. Judging by past experience, they do not expect any strong leadership on economic matters to come from his office.

5. The scope of Ton's post apparently will be smaller than it was under his predecessor, Nguyen Huu Hanh, who at present retains his position as governor of the National Bank of Vietnam from which he could still wield considerable influence. Under Hanh the ministry, called the Ministry of Economy and Finance, had direct supervisory responsibility for commerce, industry, finance, and transport and communications, but the latter two have now become

III-2

~~SECRET~~

3.5(c)

separate ministries. The departments of commerce and industry are now headed by under secretaries-- Nguyen Chanh Ly for commerce and Vo Van Nhung for industry. Ly has been a junior official in the commercial credit section of the National Bank and Nhung is an electrical engineer.

6. As minister of finance, Luu Van Tinh will continue in the general field in which he has been working for many years. He served as minister of finance under Tran Van Huong and in Ky's government as director of the budget and foreign aid as well as an assistant to Hanh on tax policy. The new minister of transport and communications is Luong The Sieu, who has been technical director of the government-owned Nong Son coal mine near Da Nang, where his predecessor as minister also worked before serving in the cabinet. The other major economic ministries, agriculture and labor, are headed by Ton That Trinh, who worked with Ton as an advisers to the prime minister, and by Pho Ba Long, a defeated senatorial candidate who has been teaching political science and business administration at the University of Da Lat while on leave from Esso where he worked in public and employee relations.

Import Situation

7. Orders for imports this year have been smaller than anticipated as the result of existing large inventories of goods in the hands of importers. The monthly value of goods ordered by commercial importers in Vietnam during the first nine months of 1967 (measured by letters of credit opened) was 20 to 25 percent below the monthly average for 1966. The level in 1966 was quite high because of the removal of import quotas and restrictions and the entry of new firms into the importing business. According to a joint Embassy/USAID study, the main concern now is the size of inventories and the effect it will have on the market for imported goods next year. By the end of June 1967 both bank and nonbank financing of importers' inventories was estimated to total roughly 25 billion piasters, or about 60 percent of the expected value of orders for all of 1967.

III-3

~~SECRET~~

3.5(c)

The large inventories have allowed consumers access to ready supplies of imported goods at stable prices thus providing a dampening effect on domestic price increases. The danger, however, is that importers may be wary of placing large new orders until inventories have run down and prices start moving up. Then a big increase in orders would not only have an unsettling effect on prices but also on port operations and bank liquidity, such as was experienced in 1966.

8. US officials in Saigon expect that the large inventories will discourage any increase in new import orders through the end of this year, but anticipate that orders will pick up early in 1968 as stocks approach more reasonable levels. They see two major problems confronting the import sector of the economy--how to reduce the lag between the time orders are placed and the time the goods arrive and are paid for by the importers and how to get importers to maintain adequate stocks of imported goods and rapidly replace them. There is currently a lag of about seven months between orders and arrivals, down from about nine months early this year. Importers should be able and willing to react quickly before shortages of goods appear. In order to make this possible, the time lag must be reduced somewhat and sufficient credit must be available to finance the arrival of goods that are running short. US officials hope to tackle the former by streamlining licensing procedures, particularly for the goods financed by the US. Credit conditions will be continually reviewed with South Vietnamese officials in the hope of easing current bank pressure on importers to repay outstanding loans.

Infestation of Stored US Rice

9. USAID personnel recently found substantial rodent and insect infestation in PL-480 rice stored in warehouses rented by the Vietnamese Government. The condition apparently exists in warehouses both in Cholon and Thu Duc, which have a combined capacity of 108,000 metric tons, or about two-thirds of the government's stock of imported rice in the Saigon area at the end of September. The infestation

III-4

~~SECRET~~

reportedly is worst in the Cholon warehouses, and plans are under way to move these stocks into USAID-controlled storage space. USAID, on an emergency basis, has already hired a private firm to fumigate and protect the rice in the Thu Duc warehouses until the government can contract for such services. AID officials reported about 1,500 tons of spoiled rice as of 10 October, but said future losses would be considerably greater and much more costly than fumigation. The survey team also recommended that, if feasible, future contracts for shipment of PL-480 rice and other foods to Vietnam include provisions for improved inspection of ships prior to and during loading and dusting of foods with insecticides during loading to inhibit or eliminate insect growth during voyages.

10. This recent survey is reminiscent of a similar study made in August by USDA technicians and private American rice millers. At that time they recommended a different system of piling to allow for good ventilation and urged frequent fumigation.

Inflation - The Cost of More Piasters

11. Under certain circumstances changes in a country's money supply (currency plus checking accounts) can have a direct and substantial impact on the prices of goods and services available in that country. If the supply of money increases at a more rapid pace than the available supply of goods then the price of those goods is very likely to rise as buyers are forced to bid more vigorously against each other. Suppliers rather quickly perceive the situation and accommodate the buyers by raising prices. Further, as the purchasing power of money falls (because of the rising price level) no one is particularly anxious to hold money for very long as its purchasing power will decline even further. Consequently, most individuals attempt to spend their money income as soon as they receive it thus further increasing the pressure on prices. This process seems to best explain the severe inflation that began in South Vietnam in 1965. In

III-5

~~SECRET~~

3.5(c)

any event, mid-1965 marked the end of the ability of the South Vietnamese economy to absorb substantial increases in the money supply while maintaining relative price stability. During that year the money supply increased by 54 percent while prices responded by rising 30 percent. In 1966 the money supply increased by 28 percent and the price level jumped by 44 percent.

12. By contrast, during the previous decade South Vietnam demonstrated a capacity to absorb large annual increases in the money stock while maintaining a modest 1.4 percent average annual rise in prices. In this respect South Vietnam seems to have outperformed several other developing nations in the Far East. As shown in the table below, between 1956 and 1965 the increase in the price index for South Vietnam was closer to that of Ceylon, Pakistan, and the Philippines while the percentage increase in the money supply was nearer to that of Taiwan and Korea, both of which experienced fairly severe inflation.

Money Supply and Price Indexes for
Selected Countries, 1956 = 100

	<u>Money Index</u>		<u>Price Index</u>	
	<u>1960</u>	<u>1965</u>	<u>1960</u>	<u>1965</u>
Ceylon	107	152	104	113
India	122	193	119	159
Pakistan	126	195	116	129
Philippines	126	204	108	137
South Vietnam	138	391	95	134
Taiwan	189	460	149	167
South Korea	181	468	133	271

13. Until 1965 price stability and a rapidly increasing money supply were compatible largely because of the US Commercial Import Program and accompanying imports from the US under the Food for Peace Agreements. Goods imported by South Vietnam under these agreements were, in large part, enough to absorb the large annual increases in money, i.e., the increase in the available supply of goods kept

III-6

~~SECRET~~

3.5(c)

pace with the money supply. A second but significant factor was the absorption of piasters by the agricultural sector of the South Vietnamese economy. This sector had traditionally relied on barter, i.e., goods exchanged for goods, instead of currency. Thirdly, and apart from the first two factors, more money is normally required in the course of a country's growth and development. As South Vietnam's national income increased, more piasters and piaster checking accounts were required to facilitate the greater number of transactions and the larger piaster amount of these transactions.

14. In 1965, when the US began sending large numbers of troops to South Vietnam, it quickly became evident that there was little slack left in the economy which would allow substantial additions to the money stock without inflation. The remainder of the subsistence sector became rather quickly monetized. And the additions to the money supply were of such magnitude that additional piasters required because of economic growth were even of lesser importance than they were before 1965. Consequently, the commercial import and Food for Peace Programs were left with almost all of the burden of preventing inflation in South Vietnam. To a lesser extent the growing black market in currency and gold acted, and still acts, as a deterrent to further inflation by providing South Vietnamese with a source of constant value currency to hold as idle balances. If piasters were used, then holding idle cash balances for purposes of future transactions would be costly because the purchasing power of the piaster is constantly declining.

15. The South Vietnamese budget deficit is largely responsible for the growing money supply and, consequently, for the upward spiral in prices. Printing more piasters appears to be the method employed by the government to raise necessary revenue as tax collections are wholly inadequate. According to recent estimates the prospects for price stability in 1968 are not good. Estimates of price increases, based on the possible budget deficit (which provides the net addition to the money supply less borrowing

III-7

~~SECRET~~

~~SECRET~~

3.5(c)

from the National Bank), go as high as 75 percent for 1968. Former minister of economy and finance Hanh, however, is conservatively predicting about a 35-percent increase.

III-8

~~SECRET~~

3.5(c)

TABLE

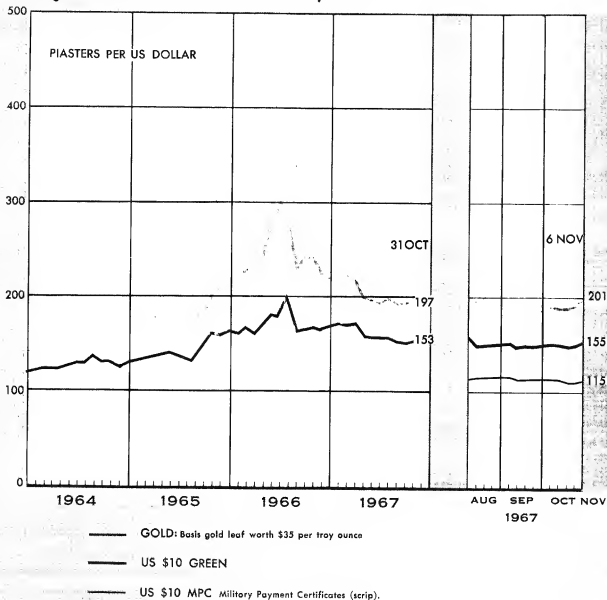
Weekly Retail Prices in Saigon a/

	13 Jun 1966 b/	3 Jan 1967	16 Oct 1967	23 Oct 1967	30 Oct 1967	6 Nov 1967
Index for all Items	<u>173</u>	<u>225</u>	<u>291</u>	<u>290</u>	<u>304</u>	<u>300</u>
Index for Food Items	<u>190</u>	<u>242</u>	<u>326</u>	<u>324</u>	<u>345</u>	<u>336</u>
Of Which: (In Piasters)						
Rice-Soc Nau (100 kg.)	1,250	1,700	2,300	2,300	2,300	2,250
Pork Bellies (1 kg.)	90	130	200	200	230	220
Fish -Ca Tre (1 kg.)	130	150	220	220	270	260
Nuoc Mam (jar)	70	90	150	150	150	150
Index for Nonfood Items	<u>140</u>	<u>195</u>	<u>227</u>	<u>228</u>	<u>230</u>	<u>233</u>
Of Which: (In Piasters)						
Firewood (cu. meter)	360	560	500	500	520	530
Cigarettes (pack)	10	14	14	14	14	14
White Calico (meter)	27	33	45	45	46	46
Kerosene (liter)	7.8	10.5	9	9	9	9

a. Data are from USAID sources. For all indexes 1 January 1965 = 100.

b. Price level just prior to the 18 June devaluation.

Saigon Free Market Gold and Currency Prices



68690 11-67

~~Secret~~

Approved for Release: 2018/07/11 C02983808

~~Secret~~

Approved for Release: 2018/07/11 C02983808